

Understanding How School Vouchers Are Funded: Summary of Funding for the Indiana Choice Scholarship Program

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This profile provides detailed local context for Indiana as part of Follow the Money: A Detailed Analysis of the Funding Mechanisms of Voucher Programs in Six Cases (Arizona, the District of Columbia, Indiana, Louisiana, Ohio, and Wisconsin). This three-part report includes a cross-case review, data visualizations of enrollment and funding patterns, and detailed profiles of each individual case, including the following profile.

The purposes of this report are to provide details on how voucher funding designs interact with funding formulas and to increase transparency around voucher design for taxpayers and policymakers. The financial impact and transparency of voucher funding are primary concerns due to the public governance and financing of U.S. public education systems. A federal, state, or local government's decision to use tax revenues to help families pay for private schooling is often politically contentious and has been the topic of litigation in state and federal courts.

Understanding the potential impact that specific provisions may have on state and local revenues is necessary to inform policymakers about whether a voucher program design meets constituents' expectations regarding public governance, funding, and educational services. An understanding of these details is equally necessary for taxpayers and voters so that they may make informed decisions. The data and analyses included in these profiles call into question the rhetoric used by both supporters and detractors of voucher programs—for example, in terms of whether local districts retain any of voucher students' per-pupil allotment from the state, or whether any local funds are used for voucher awards.

BACKGROUND

Established in 2011 by House Enrolled Act 1003 (2011) and coded in state law as Indiana Code 20-51-4, the Indiana Choice Scholarship (ICS) Program provides vouchers for private school tuition. Each year since the program's inception, eligibility criteria and the number of available vouchers have expanded. The original student eligibility criteria for the voucher program (which is still in place) included a qualification based on receipt of free or reduced-price lunch (FRL) through the National School Lunch Program, a commonly used proxy for

poverty at the school level; if a student qualifies to receive FRL, they qualify to participate in the ICS Program. Those students must then meet one of several eligibility “pathways” in order to receive a voucher. The original pathways (used 2011–2012) required that a student (1) attended at least two semesters in an Indiana public school or (2) previously received a scholarship from a certified scholarship granting organization (SGO). (An SGO is a 501(c)(3) tax-exempt organization funded by charitable donations that provides scholarships to students to attend a nonpublic school of their choice.) In 2012–2013,

the pathway of previous Choice scholarship student was added, which allowed all students previously receiving vouchers to continue receiving vouchers. In 2013–2014, four new pathways were added for students that: (4) held a special education classification, (5) resided in the catchment area of an “F” rated school, (6) used a voucher but not in the immediately previous year, or (7) were siblings of ICS participants.

The increase in pathways was accompanied by an increase in the number of available vouchers. In 2011–2012, the first year of the program, the number of vouchers was capped at 7,500, though only 3,911 vouchers (52 percent) were used. In 2012–2013, the cap increased to 15,000 with 9,139 vouchers used (61 percent). In 2013–2014, the cap was removed, and 19,809 vouchers were issued. In 2014–2015, the number of vouchers issued rose to 29,148, and in 2015–2016, to 32,686 (Ind. Code 20-51-4-3; Indiana Department of Education [IDOE], 2016; see the visualization accompanying this report). For a more detailed analysis of the ICS Program, see Cierniak, Billick, and Ruddy (2015).

In Indiana, the value of a voucher varies depending on private school, grade, family income, and district of residence (IDOE, n.d., 2015a; Ind. Code 20-51-4-4).¹ A voucher is equal to the smaller of two amounts: (1) the full amount of tuition and fees at the chosen private school or (2) depending on family income, household size, and FRL eligibility, either (2a) 90 percent of the state-funded per-pupil amount or (2b) 50 percent of the state-funded per-pupil amount. Prior to the 2015–2016 school year, the voucher value for students in grades 1–8 was the smallest of these two amounts or a third amount, \$4,800. The first type of

voucher (2a) is commonly referred to as the “90 percent voucher,” although it does not refer to 90 percent of the private school’s tuition but rather 90 percent of the state per-pupil funding that the student would have received had they been enrolled in their local public school. In 2014–2015, the 90 percent voucher equated to a state average of \$5,357 across Indiana’s school districts and ranged from a low of \$4,521 (Carmel Clay Schools) to a high of \$6,997 (School City of East Chicago; IDOE, n.d.). The “50 percent voucher” (2b) equated to a state average of \$2,976 across Indiana’s school districts (IDOE, n.d.) and ranged from a low of \$2,512 (Carmel Clay Schools) to a high of \$3,887 (School City of East Chicago; IDOE, n.d.).

The average voucher amounts for the first four years of the program, for both 50 percent and 90 percent vouchers, are displayed in Table 1. Note that differences among grade clusters may be due to differences in the cost of private school tuition, the \$4,800 maximum for grades 1–8, and/or the amounts received by a particular school corporation (IDOE, 2015a).

STATE FUNDING MECHANISMS

Indiana’s state-funded per-pupil amount is based on a foundation formula. The foundation (minimum) amount per pupil for fiscal year 2015 was \$4,967 and \$5,088 for fiscal year 2016 (Ind. Code 20-43-5-4). Funding for a

TABLE 1. INDIANA CHOICE SCHOLARSHIP AVERAGE AWARD AMOUNTS, 2011–2015

	Award type	2011–2012	2012–2013	2013–2014	2014–2015
Kindergarten	50 percent	n/a	n/a	\$2,857	\$2,700
	90 percent	n/a	n/a	\$4,474	\$4,259
Grades 1–8	50 percent	\$2,928	\$2,862	\$2,880	\$2,809
	90 percent	\$4,105	\$4,125	\$4,209	\$4,159
Grades 9–12	50 percent	\$2,954	\$2,937	\$3,162	\$3,072
	90 percent	\$5,518	\$5,551	\$5,807	\$5,662

Source: IDOE (2015a).

¹ School districts in Indiana are referred to as *corporations*, but to be consistent across our cases, we use the term *districts*.

school district is calculated using the per-pupil amount multiplied by the district's total student enrollment (or average daily membership [ADM]); additional funding is calculated through a complexity formula that takes into account the socioeconomic level of each district's students. Since a district's funding is based on student enrollment, the mechanisms for counting students impact the total enrollment number and total funding. To provide more accurate funding that follows student movement among districts, Indiana moved from a single student count per year to a multiple-count measure in 2012–2013 (H. Enrolled Act 1189, 2012).

Indiana's school funding system features an unusual source of revenues. In 2008, due to significant differences in home values among districts and in an effort to equalize funding across the state, the state legislature shifted the cost of education from local to state-based resources by changing from a property tax base to a sales tax base. Unlike the other cases in our report, which have local property tax contributions toward total education revenues, Indiana's school funding system now receives zero local tax contribution for districts (Michael, Spradlin, & Carson, 2009). Unfortunately, the 2008 shift away from property tax revenues (which are relatively stable compared to sales tax revenues; see Center for Tax and Budget Accountability, 2015) was followed by the 2009 economic recession, a subsequent decline in sales tax revenues, and, consequently, a decline in state education revenues.

IMPACT ON STATE AND LOCAL BUDGETS

Participation in the ICS Program by former public school students results in a decrease of state funding to local districts; once enrolled in the program, students previously enrolled in public schools are no longer counted towards a district's funding. For the first two years

(2011–2012 and 2012–2013), the impact on state and local budgets is difficult to determine; publicly available data from IDOE do not provide sufficient detail to calculate the exact proportion of the total statewide voucher disbursements attributable to students previously enrolled in public schools. IDOE (2016) provides data on the number and percent of voucher recipients previously enrolled at a public school, but these data are based on attendance at an Indiana public school “at any previous point in [a student's] educational history” (p. 14) rather than eligibility by a specific pathway. For example, for the years 2011–2012 and 2012–2013, students who attended a public school in kindergarten, but attended a private school in grades 1–5 and then received a voucher in sixth grade, would be included in the “previously enrolled at a public school” numbers reported by IDOE. The use of this broad qualification for “previously enrolled at a public school” complicates the understanding of the true impact of vouchers on Indiana school districts, that is, the number of students, and their state education dollars, who use a voucher to transfer from a public school to a private school. For this report, the authors made their own calculations in order to estimate the amount of funding directly tied to ICS pathways—an estimation not available via IDOE data for the years 2011–2012 and 2012–2013. Our estimates were derived using:

- total number of voucher students;
- percentage of participating voucher students by grade level;
- percentage of participating voucher students by award level;
- average voucher amounts at 50 percent and 90 percent levels; and
- percentage of students by ICS pathway in 2011–2012 and 2012–2013 (data found in IDOE, 2015a).

These variables allow for estimating the portion of the total amount of disbursements which can be attributed to students previously enrolled in

public schools. These calculations yield estimates of funds that, in total, school districts across the state no longer received. Highlights of our calculations² include:

- In 2011–2012, there were \$16.2 million in ICS disbursements. An estimated \$14.6 million of disbursements (approximately 90 percent) funded students previously enrolled in a public school for two or more semesters.
- In 2012–2013, there were \$37.3 million in ICS disbursements. An estimated \$28.8 million of disbursements (approximately 77 percent) funded students previously enrolled in public schools under the two-semester pathway.
- The remaining percentages of ICS state funds in each of these years (10 percent in 2011–2012; 23 percent in 2012–2013) went to students *not* previously enrolled in public schools; that is, funds for these students were not deducted from a student's former district but rather represent *newly allocated public funds for students using vouchers to attend private schools*.

Per IDOE data, in 2011–2012, 90 percent of ICS students had previously attended a public school

at any point; our calculations estimate 86 percent. Per IDOE data, in 2012–2013, 79 percent had previously attended a public school at any point; our calculations estimate 74 percent. The slightly higher IDOE percentages may be due to students' eligibility for vouchers via the SGO pathway *and* having been previously enrolled in a public school. IDOE approaches its calculations by including students enrolled in public schools at any time, whereas our estimates are for students who left a public school by using a voucher. Our calculation highlights how much public money moves from a public district to a private school, whereas the IDOE calculations could include students who attended public school in kindergarten, but attended a private school just prior to receiving a voucher.

Using our calculations we can make an additional observation regarding the amount of voucher disbursements made to students *not* previously enrolled in public schools. Through the SGO award pathway, 14 percent of vouchers in 2011–2012 and 22 percent of *new* vouchers in 2012–2013 went to voucher participants not previously enrolled in public schools (see Table 2).

Beginning in years 2013–2014 and 2014–2015, IDOE data provided the percentages of students

²Specific estimates were calculated by multiplying the percentage of students (within the grade bands of kindergarten, grades 1–8, and grades 9–12) by the total number of voucher students in each district, multiplied by the percentage of students receiving 50 percent and 90 percent vouchers. The resulting value was then multiplied by the percentage of total students using the two-semester pathway. Finally, we multiplied these estimated student participation numbers by the number of 50 percent and 90 percent vouchers for each grade band. In 2012–2013, we used the same percentage from 2011–2012 to calculate an estimated proportion of how many students using the previous Choice pathway had originally been eligible via the two-semester pathway.

For example, in order to estimate the amount of money disbursed to kindergarteners at the 90 percent award, we used the following formula for each district and summed the results across districts:

$$\begin{aligned} &\# \text{ K students} / \text{Total district enrollment} = \% \text{ K students} \\ &\% \text{ K students} \times \text{total voucher enrollment for district} = \# \text{ voucher participation in K} \\ &\text{Total \# K vouchers in district} \times \% \text{ of total voucher participants at 90 percent} = \\ &\text{Number of 90 percent awards to K students in given district} \end{aligned}$$

For districts with fewer than ten students (and thus with data not reported), we divided the total number of students unaccounted for in other districts and divided this number by the number of districts with fewer than ten students. We used this number for the total number of voucher participants in that district in order to estimate the other variables.

TABLE 2. PARTICIPATION BY PATHWAY

Pathway	Authors' estimates		IDOE calculations		Totals
	2011–2012	2012–2013	2013–2014	2014–2015	
Two semesters in a public school	3,379 (86.4%)	4,209 (46.1%)	4,599 (23.2%)	3,405 (11.7%)	15,592
Previous SGO award	532 (13.6%)	1,972 (21.6%)	2,423 (12.2%)	5,667 (19.4%)	10,594
Previous Choice	N/A	2,958 (32.4%)	108 (0.5%)	481 (1.7%)	3,547
Continuing Choice	N/A	N/A	7,066 (35.7%)	14,738 (50.6%)	21,804
Special education	N/A	N/A	1,088 (5.5%)	1,262 (4.3%)	2,350
“F” school	N/A	N/A	1,796 (9.1%)	597 (2.0%)	2,393
Sibling	N/A	N/A	2,729 (13.8%)	2,998 (10.3%)	5,727
Total	3,911	9,139	19,809	29,148	

Sources: Authors' calculations; IDOE (2015a; Tables 10 and 11).

receiving vouchers via three of the four expanded pathways (“F” school, sibling, and special education); these pathways do not require students to have been previously enrolled in a public school (IDOE, 2014; 2015a).³ As shown in IDOE’s annual reports for 2014 (p. 15) and 2015 (p. 15), 93 percent (n = 5,225) and 90 percent (n = 4,413), respectively, of the students using one of the three additional pathways were *not eligible* under the two-semester pathway; this means that nearly all participants using these three additional pathways already attended private schools. With these new pathways, the state now pays the private school tuition for thousands of students who already attended private school, paid for either by their parents/guardians or through an SGO. As noted by IDOE (2014, 2015a), data on how many of these participants may have previously attended private school via an SGO scholarship are not included in IDOE annual reports. A student may be eligible for the ICS Program under multiple pathways, but IDOE only records a voucher distribution under one pathway; this means that an ICS participant

may have been eligible under both the “F” school pathway and the previous SGO pathway, but if the distributed voucher is recorded under “F” school, no data are recorded regarding the student’s previous SGO status.

Thus, with the introduction of the additional pathways, Indiana students who did not previously receive any public funding for their education may now do so, thereby increasing the total public funding burden—which in Indiana is a burden on state education funds, not local funds. The 2015 IDOE Annual Report shows the decreased proportions of ICS

participants previously enrolled in public schools. In 2011–2012, 90 percent of participants were previously enrolled at public schools. By 2015–2016, that number dropped to under 50 percent (IDOE, 2016). Understanding these data in terms of which pathways were originally used by students in each year is not possible, however, due to IDOE data recording/tracking mechanisms; after the first year of ICS participation, a student is only recorded in the continuing Choice or previous Choice pathways. IDOE recording/tracking criteria for these pathways make it difficult both to calculate what proportion of ICS participants in each year previously attended public schools and to identify the grade and voucher level (50 percent or 90 percent) when they first received a voucher.

The ICS Program also impacts special education funding for districts and participating private schools. As of 2013, Indiana became the only state in this report that allows parents of voucher recipients to choose whether to have the private or public school provide the special education

³ We do not include the continuing Choice pathway in this discussion as it is not relevant for new ICS recipients.

services that are required for the student in his/her Individualized Education Program (IEP) or individual service plan⁴ (H. Enrolled Act 1003, 2013; Ind. Code 20-51-4-4.5 Version “a”⁵). The only restriction is that the parent can choose to have them provided by the private school only if the private school offers those services. However, there are no minimum qualifications or oversight regarding the private school’s ability to provide the necessary services. The option for parents of students with a disability requiring special education services to have a private school provide those services differs significantly from other voucher programs in our report which either administer separate special education voucher programs (e.g., Ohio) or require the given private school to show evidence of their ability to provide the needed services (e.g., Louisiana). In Indiana, the private school makes the decision regarding whether or not it can provide the needed services.

If the nonpublic school agrees to provide the services and the parent chooses that school, the student’s special education funding also goes to the private school (Ind. Code 20-51-4-4(a) Version “a”; Ind. Code 20-51-4-4.5(a) Version “a”). If the eligible private school cannot provide the special education services, or if the parent chooses to have the district provide them, the district will continue to receive the state special education funding for that student and provide the services (Ind. Code 20-51-4-4.5(a) Version “a”). In 2015–2016, private schools provided special education services to 593 out of the 3,204 eligible participants with special needs; the net payment for state special education funding for these 593 students to participating private schools was \$1,323,641 (IDOE, 2016). In 2013–2014, private schools provided special education services to 235 out of the 2,387 eligible

participants with special needs; the net payment for state special education funding for these 235 students to participating Choice schools was \$711,260 (IDOE, 2015a).⁶

Recent Indiana policy may alter the fiscal impact of vouchers on public funds. Beginning in 2015–2016, the \$4,800 voucher cap for students in grades 1–8 was removed (H. Enrolled Act 1001, 2015). With the cap eliminated, the amount of a 90 percent voucher for students in grades 1–8, as well as those for kindergarten and grades 9–12, is now the lesser of only two amounts: the amount of tuition at the private school or 90 percent of the state-funded per-pupil amount. According to Indiana’s Legislative Services Agency fiscal impact statement, the estimated cost of lifting this cap on grades 1–8 will be \$3.8 million, as \$4,800 was often lower than the other two amounts; these monies will be sourced from the tuition support appropriation (Legislative Services Agency, 2015b).

In budgeting the annual cost of the program, House Enrolled Act 1001 (2015) states that Indiana’s Budget Agency “shall estimate the amount of distributions that will be made for choice scholarships for the following state fiscal year” (p. 202). Existing policy is not clear, however, about how this budget estimation shall be determined. House Enrolled Act 1001 (2015) also stipulates that if the actual cost of distributed vouchers exceeds the estimated cost, the negative difference (up to -\$25,000,000) may be transferred from the state’s voucher appropriation fund and applied to the state’s general fund (H. Enrolled Act 1001 § 209, 2015). These required cost estimates—the amount of funding needed for the state to cover its voucher program—are not found in the biennial state budget nor do they appear in the annual State of Indiana Budget

⁴ Similar to an IEP, the individual service plan is created for students in nonpublic schools who receive special education services from the district (511 Ind. Admin. Code 7-34-5).

⁵ Current Indiana statutes include changes that will take place in 2017, as Version “b.” Version “a” is the law currently in force.

⁶ None of the published annual reports include the data for 2014–2015.

TABLE 3. ESTIMATED AND ACTUAL VOUCHER COSTS, FISCAL YEARS 2015–2017

	Actual 2015	Estimate 2016	Actual 2016	Estimate 2017
ICS participants	29,148	36,000	32,686	40,000
Total ICS spending	\$112,707,313	\$156,420,000	\$131,514,682	\$173,800,000

Source: IDOE (2016); Legislative Services Agency (2015a).

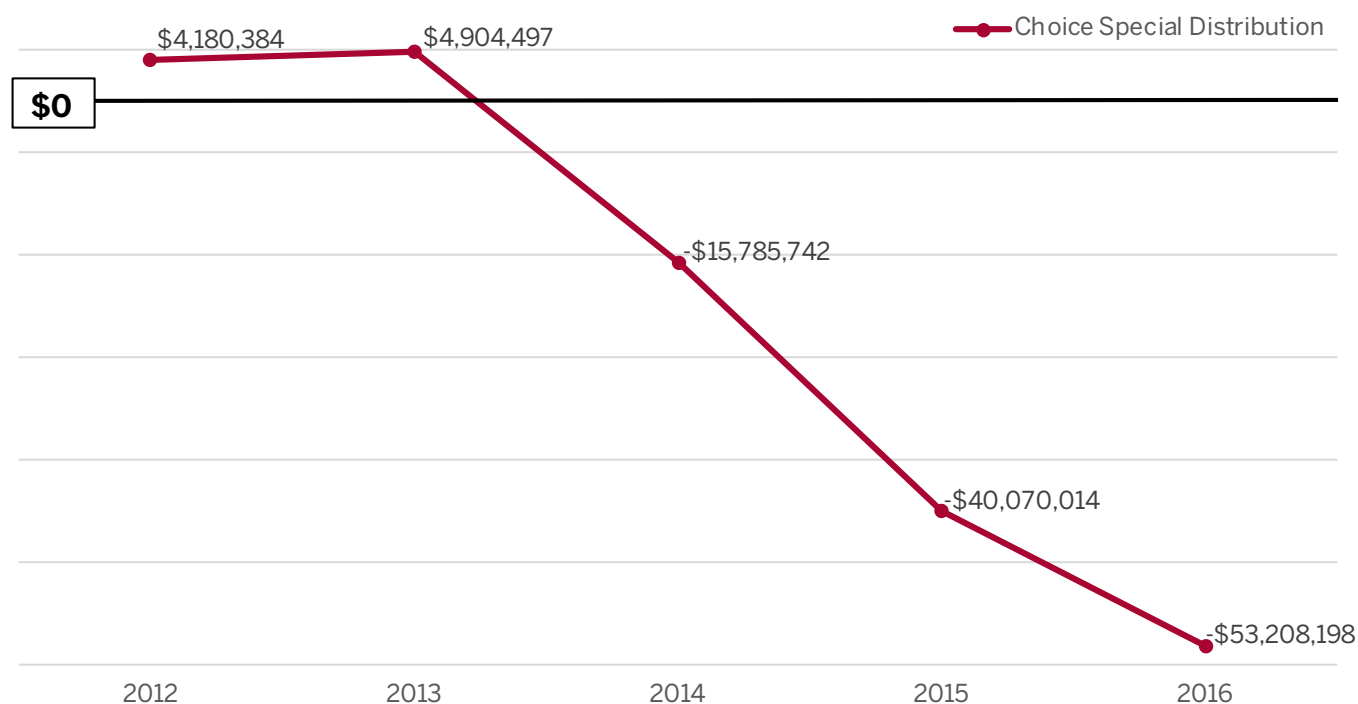
Report (Pence, 2015). The authors found only one publicly available document that indicated these costs estimates: A 2015 school formula simulation prepared for the Indiana House Republican Caucus by the nonpartisan Legislative Services Agency (2015a) estimated a 34 percent increase in 2015–2016 and another 11 percent increase in 2016–2017. (Table 3 translates those percentages into dollar amounts.)

In the 2015 General Assembly session, Democrats proposed an amendment (H. Motion 100901/DI113, 2015) requiring a separate budget line item for estimated voucher distributions from the estimated funding amount for public schools,

budget and/or the annual State of Indiana Budget Report would increase public transparency of the projected costs of the state’s voucher program. When the cap on the number of vouchers was eliminated in 2013–2014, the required estimation of costs became more difficult and less accurate, which could result in major planning and spending issues for future education budgets.

Indiana’s 2013–2015 biennial budget included a unique provision among our cases, the Choice Special Distribution, which allowed any savings from the ICS Program to be distributed to public school districts and charter schools according to their state funding percentage share (H. Enrolled

FIGURE 1. CHOICE SPECIAL DISTRIBUTION, 2012–2016



Source: IDOE (2016).

TABLE 4. MAXIMUM AND ACTUAL VOUCHER PAYMENTS, FISCAL YEARS 2012–2015

Fiscal year	Actual awards by type		Percent change in number of vouchers	Maximum award amount available	Actual amount paid
	90 percent award	50 percent award			
2011–2012	3,315	596	n/a	\$16,207,912	\$15,514,025
2012–2013	7,420	1,719	132%	\$37,317,881	\$36,042,923
2013–2014	14,960	4,849	118%	\$81,066,786	\$78,593,340
2014–2015	20,496	8,652	47%	\$115,923,832	\$112,707,313
2015–2016	22,538	10,148	12%	\$134,744,301	\$131,514,682

Source: IDOE (2016, tables 2, 18a, 25, and 26, and authors' calculations).

Act 1001(9)(B), 2013). This savings amount is calculated by finding the difference between the amount that each school district would have received if ICS participants (eligible via the two-semester pathway) had remained in that district, and the actual cost of voucher distributions. In 2011–2012, the total savings amount distributed to school districts across Indiana was \$4,180,384. In 2012–2013, this total savings amount was \$4,904,497. In 2013–2014, 2014–2015, and 2015–2016, there were no savings; the differences were in the negative (-\$15,785,742, -\$40,070,014, and -\$53,208,198, respectively; see Figure 1 (IDOE, 2015b).

These negative amounts of Choice Special Distribution calculations are likely a result of the growing percentage of ICS participants who have never previously attended a public school. Because of this trend, the state is spending money in addition to the voucher amounts that follow public school students to private schools, by paying for the tuition of students who had previously been paying out of pocket or receiving a private scholarship.

Prior to fiscal year 2016, there was a hold-harmless provision in place which limited the financial impact of decreasing student enrollment between the September and February student counts to 10 percent; if the true loss to a district

was greater than 10 percent, tuition support would not be reduced beyond that level. In fiscal year 2016, this restriction was lifted (Legislative Services Agency, 2015b). From the first year of the ICS Program to the current year, there has been an

increase of over 600 percent in awards; see Table 4 for the annual percentage increases. Given the tremendous growth of voucher participants in Indiana, the removal of the hold-harmless provision will financially impact schools if a significant number of students leave via a voucher. The removal of the provision aligns with the trend in Indiana that education funding more closely follows student enrollment; as discussed above, in 2013, the state began using multiple counts per year instead of a single count per year (H. Enrolled Act 1189, 2012).

FISCAL ACCOUNTABILITY AND REPORTING

There are no provisions in the Indiana Code addressing fiscal accountability or audits for the program, though there are some provisions involving minimum requirements for private school participation that could be interpreted as being related to fiscal matters. These requirements include the following: the private school must be accredited by Indiana's State Board of Education or a national or regional accreditation agency; must voluntarily accept eligible students; and must submit student data to the state as required by Indiana Code 20-31-8-3 (Ind. Code 20-51-1-4.7). To ensure that they meet criteria (such as non-discrimination), Indiana Code 20-51-4-3 requires random visits to five percent of participating private schools each year.

Accountability provisions for the ICS Program in the Indiana Code do not specifically refer to financial accountability or transparency; in the ICS annual reports, however, IDOE includes the total annual payments made to private schools as well as the annual amount paid to each private school (e.g., IDOE, 2016).

Since the program's 2011 inception, only one report regarding the fiscal accountability of the ICS Program has been conducted—an internal compliance report published by the Indiana Non-Public Education Association (INPEA) (see Morello, 2014).⁷ Covering the first three years of the program, the report found that 25 percent of participating schools miscalculated the amounts charged to the state for vouchers; those schools collectively and of their own accord returned almost \$4 million to the state (IDOE, 2015a; Morello, 2014). At the time of this profile's publication, neither IDOE, the Indiana State Board of Education, school districts, nor independent research entities have released any fiscal accountability reports.

CONCLUSION

The ICS Program is only a few years old but now offers more vouchers than any statewide voucher program in the country. The program and Indiana's education funding system have unusual characteristics, setting Indiana apart from the other cases in our report. Indiana is the only case that funds public education through state sales tax revenues, so there is no concern regarding potential use of local revenues for funding vouchers directly or indirectly, as we see in Louisiana and Wisconsin. Indiana no longer has a cap on the number of voucher distributions, and eligibility for the ICS Program is available to students who have not previously enrolled in a public school; for these reasons, accurately estimating the impact of vouchers on funds allocated to public schools is difficult.

If a participant did not previously attend a public school, the state assumes an additional funding burden. Savings from the program were distributed to public districts in the first two years, but the negative differences in the last three fiscal years—differences in the millions—show how much more the voucher program costs Indiana each year. A lack of fiscal reporting requirements for the ICS Program is also problematic. In order to further understand how Indiana's state-specific patterns compare to our other cases, we recommend that readers explore the cross-case review and other case profiles.

⁷The report itself is not publicly available.

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